



**Kristina Hooper**  
Chief Global Market Strategist



## Sweden cuts rates

The move shows central banks aren't waiting for the Federal Reserve to cut rates, and it indicates confidence that the European Central Bank will cut in June.

## Positive economic signs

The Eurozone Services Purchasing Managers' Index hit an 11-month high in April, and the services sector is also showing strength in China.

## Pressure on consumers

Companies' comments this earnings season indicate that lower-income households in the US are under significant pressure.

---

### Weekly Market Compass | May 15, 2024

---

Last week brought good news for the markets with another central bank rate cut and positive economic signs emerging in Europe and China. This was tempered by more shipping disruptions in the Red Sea, which could have an impact on inflation, as well as further signs that US lower-income consumers are under increasing pressure. Here are my key takeaways on the latest news.

---

#### Central bank watch: Momentum builds for rate cuts

Last week, we saw the second major Western developed central bank cut rates this cycle – Sweden's Riksbank. This is the first time in this century that the Riksbank has cut rates before the US Federal Reserve (Fed) following a tightening cycle.

Conventional wisdom is that the Riksbank is extremely confident that the European Central Bank (ECB) will cut in June, and so it's not worried about "front running" the ECB. This also tells me that central banks are looking inward in making their decisions on monetary policy — they're not going to wait for the Fed to cut rates when their economic data is telling them it's time to cut.

The Riksbank cut followed the surprise rate cut by the Swiss National Bank in March. Two dominoes have fallen thus far, and I expect a few more before the end of the second quarter. Last week, the Bank of England (BOE) decided to maintain its key policy rate at its current level. However, BOE Governor Andrew Bailey suggested that a first rate cut may not be far off, and that the BOE might cut more than the market has currently priced in over the forecast period.

---

#### Red Sea shipping disruptions result in delays, higher costs

Major shipping company Maersk warned last week that the costs it is incurring to avoid Houthi attacks in the Red Sea are on the rise. Maersk and other shipping companies have had to divert their ships to avoid Houthi attacks since December, but now the "risk zone" has expanded. This is causing longer voyage times and higher costs. Maersk said its fuel costs on the affected routes between Asia and Europe are now 40% higher per voyage than they were before the Israel-Hamas war began.<sup>1</sup> Maersk also warned that the knock-on effects have been bottlenecks and vessel bunching, which is reducing industry-wide capacity by about 15% to 20% on the Far East to North Europe and Mediterranean routes during the second quarter.<sup>1</sup>

Maersk had been seen as a bellwether of world trade, so we want to be vigilant about the impact to goods inflation. We will be following metrics such as the New York Fed Global Supply Chain Pressure Index.

---

## **Encouraging signs of economic growth emerge in Europe and the UK**

We're seeing signs of improvement in eurozone growth. Last week, we learned that eurozone retail sales rose 0.8% month-over-month for March, which was higher than expected.<sup>2</sup> And the Eurozone Services Purchasing Managers' Index (PMI) clocked in at 53.3 for April — an 11-month high.<sup>2</sup> That was higher than the previous reading and higher than expected.<sup>2</sup>

This comes at the same time that a rate cut by the ECB seems all but certain — and it helps to explain the strong performance by the Stoxx 600 Index, which rallied last week, hitting a new all-time high.<sup>3</sup>

In the UK, gross domestic product grew 0.6% in the first quarter after a very modest contraction in the previous two quarters.<sup>4</sup> The FTSE 100 Index also hit record highs last week<sup>5</sup> — no doubt also helped by the better economic data and a seemingly more dovish Bank of England.

---

## **China's services sector sees positive growth**

The services sector has shown strength in China. For example, during the May Labor Day holiday last week, we saw 295 million trips made within China — which is 28% higher than pre-pandemic levels.<sup>6</sup> And the China Caixin Services PMI reading for April clocked in at 52.5, well into expansion territory.<sup>7</sup> It's no surprise we have seen strong performance from China equities recently, with the MSCI China Index rising 10.6% in the one month period ending May 10, 2024.<sup>8</sup>

---

## **Investments in artificial intelligence highlighted on earnings calls**

Some big tech companies' recent earnings calls indicated they are making major investments in artificial intelligence (AI) infrastructure. And last week Microsoft unveiled a \$3.3 billion AI investment focused on a new data center in southeastern Wisconsin.<sup>9</sup> This is helping to fuel a capital expenditure boom. I'm looking forward to the substantial impact — including improved total factor productivity — these investments are likely to yield over time.

---

## **More signs that US lower-income consumers are facing headwinds**

Probably one of the bigger takeaways from this earnings season has been the theme of a "two-speed" or divergent economy in the US. Affluent households continue to do well while lower income households are under significant pressure.

We heard from a variety of companies including Kraft, McDonald's, Coca Cola, and Capital One about the pressure on lower-income consumers. And that's supported by the overall data we are seeing: the increase in credit card delinquencies, the drop in consumer sentiment for lower income households, etc. Most recently we heard from Tyson Foods executive Melanie Boulden who said that they are seeing the consumer is under pressure, especially the lower-income consumer.

---

## **US consumers have high expectations for inflation**

The preliminary reading of US consumer inflation expectations for May showed a very substantial increase in one-year ahead expectations, from 3.1% to 3.5%.<sup>10</sup> This is the highest level since November 2023. The same survey showed a large drop in consumer sentiment, from 77.2 in April to a preliminary reading of 67.4 in May.<sup>10</sup>

It's important to note that the University of Michigan's Survey of Consumers is transitioning from a phone-based survey to a web survey this year. From January through March of 2024, it was only conducted by phone. From April through June, it is being conducted by phone and increasingly by web. By July, it will be exclusively a web-based survey. Why is this important? I think there is a good possibility that the survey results may have been affected by this transition.

Because of these survey changes, it seems sensible to look to other consumer inflation expectations readings, such as the New York Fed, for greater insight. The New York Fed Survey of Consumers just released its most recent consumer survey which seems to confirm the Michigan survey results. It showed a material increase in one-year ahead inflation expectations from 3% to 3.3% (but still below its 12-month trailing average of 3.5%).<sup>11</sup> The good news is that longer-term expectations — for three years ahead — actually showed a decrease from 2.9% to 2.8%.<sup>11</sup> And it is longer-term inflation expectations that the Fed is more concerned with.

---

## Looking ahead

All in all, last week was a good week. It feels like market-watchers are all ladies in waiting — not for a member of the royal family, but rather for rate cuts. This week's US Consumer Price Index (CPI) report is an important data point for the Fed, but it won't convince the Fed one way or the other on its own — the Fed will need more data for confirmation — so I think the first opportunity for the Fed domino to fall will be the third quarter.

---

## Dates to watch

Date	Report	What it tells us
May 14	UK Unemployment	Indicates the health of the job market
	Germany Consumer Price Index	Tracks the path of inflation
	Eurozone ZEW Economic Sentiment	Measures opinions on the direction of the economy for the next six months
	Germany ZEW Economic Sentiment	Measures opinions on the direction of the economy for the next six months
	US NFIB Small Business Optimism Index	Provides a snapshot of the health of US small businesses
	OPEC Monthly Report	Covers major issues affecting the world oil market
	US Producer Price Index	Measures the change in prices paid to producers of goods and services
	ECB's Isabel Schnabel speaks	Offers insights into central bank thinking
	Fed's Jay Powell speaks	Offers insights into central bank thinking
May 15	Eurozone Employment	Indicates the health of the job market
	Eurozone Gross Domestic Product	Measures a region's economic activity
	Eurozone Industrial Production	Indicates the economic health of the industrial sector
	US Consumer Price Index	Tracks the path of inflation
	US Retail Sales	Measures consumer demand

Date	Report	What it tells us
May 16	Japan Gross Domestic Product	Measures a region's economic activity
	Australia Employment	Indicates the health of the job market
	Japan Industrial Production	Indicates the economic health of the industrial sector
	Bank of England Financial Stability Report	Discusses the stability of the UK financial system and efforts to remove or reduce risks
	ECB Financial Stability Review	Provides an overview of potential risks to financial stability in the euro area
	US Building Permits and Housing Starts	Indicates the health of the housing market
	Philadelphia Fed Manufacturing Index	Tracks manufacturing conditions in the Northeastern US.
	US Industrial Production	Indicates the economic health of the industrial sector.
	Fed's Balance Sheet	Shows the central bank's assets and liabilities
	Korea Unemployment Rate	Indicates the health of the job market
	China Fixed Asset Investment	Measures spending on capital investments
	China Industrial Production	Indicates the economic health of the industrial sector
	China Retail Sales	Measures consumer demand
	China Unemployment Rate	Indicates the health of the job market

#### Notes

<sup>1</sup>Source: Maersk, May 6, 2024

<sup>2</sup>Source: S&P Global/HCOB

<sup>3</sup>Source: Bloomberg, as of May 10, 2024

<sup>4</sup>Source: UK Office of National Statistics

<sup>5</sup>Source: Bloomberg

<sup>6</sup>Source: China Ministry of Culture and Tourism

<sup>7</sup>Source: Caixin, May 2024

<sup>8</sup>Source: MSCI, as of May 10, 2024

<sup>9</sup>Source: Microsoft, May 8, 2024

<sup>10</sup>Source: University of Michigan Survey of Consumers, May 10, 2024

<sup>11</sup>Source: Federal Reserve Bank of New York as of May 13, 2024

---

### Important information

All investing involves risk, including the risk of loss.

Past performance does not guarantee future results.

Investments cannot be made directly in an index.

This does not constitute a recommendation of any investment strategy or product for a particular investor. Investors should consult a financial professional before making any investment decisions.

In general, stock values fluctuate, sometimes widely, in response to activities specific to the company as well as general market, economic and political conditions.

The risks of investing in securities of foreign issuers, including emerging market issuers, can include fluctuations in foreign currencies, political and economic instability, and foreign taxation issues.

Investments in companies located or operating in Greater China are subject to the following risks: nationalization, expropriation, or confiscation of property, difficulty in obtaining and/or enforcing judgments, alteration or discontinuation of economic reforms, military conflicts, and China's dependency on the economies of other Asian countries, many of which are developing countries.

The Consumer Price Index (CPI) measures change in consumer prices as determined by the US Bureau of Labor Statistics.

The Survey of Consumers is a monthly telephone survey conducted by the University of Michigan that provides indexes of consumer sentiment and inflation expectations.

The New York Fed's Survey of Consumer Expectations is a nationally representative, Internet-based survey of a rotating panel of approximately 1,300 household heads.

Purchasing Managers' Indexes are based on monthly surveys of companies worldwide, and gauge business conditions within the manufacturing and services sectors.

The STOXX® Europe 600 Index represents large, mid, and small capitalization companies across 17 countries of the European region.

The MSCI China Index captures large- and mid-cap representation across China H shares, B shares, Red chips, P chips and foreign listings (e.g. ADRs).

The FTSE 100 Index includes the 100 largest companies in terms of capitalization listed on the London Stock Exchange.

The Caixin China Services Purchasing Managers' Index (PMI) is based on data compiled from monthly replies to questionnaires sent to purchasing executives in over 400 companies.

The New York Fed's Global Supply Chain Pressure Index (GSCPI) integrates a number of commonly used metrics with an aim to provide a more comprehensive summary of potential disruptions affecting global supply chains.

Gross domestic product is a broad indicator of a region's economic activity, measuring the monetary value of all the finished goods and services produced in that region over a specified period of time.

Tightening monetary policy includes actions by a central bank to curb inflation.

Capital spending (or capital expenditures, or capex) is the use of company funds to acquire or upgrade physical assets such as property, industrial buildings, or equipment.

The opinions referenced above are those of the author as of **May 13, 2024**. These comments should not be construed as recommendations, but as an illustration of broader themes. Forward-looking statements are not guarantees of future results. They involve risks, uncertainties, and assumptions; there can be no assurance that actual results will not differ materially from expectations.